

## Roche - Long term priorities in a short term market environment

*Karl Mahler, Head of Investor Relations*



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- 6 increased government pricing pressures;
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## Performance up- date

The current market environment- external factors

Defining priorities

Securing the long term value propositions

Roche's core strengths

## Q1 2007: Industry leading

*More than CHF 1.5 billion organic growth*

CHF bn	Q1'06	Q1'07	% change in		USD growth
			CHF	local	
Pharmaceuticals	7.7	9.1	18	20	24
Diagnostics	2.1	2.2	6	6	11
<b>Roche Group</b>	<b>9.8</b>	<b>11.4</b>	<b>16</b>	<b>17</b>	<b>21</b>

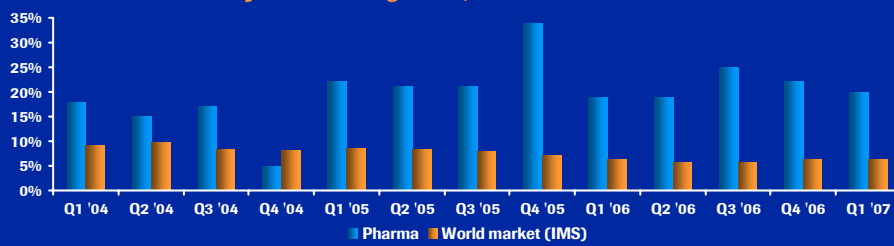
## Consistently outgrowing peers



*Group normalised sales - Constantly outperforming World Pharma Market*



*Quarterly local sales growth, Pharma vs. World Market*



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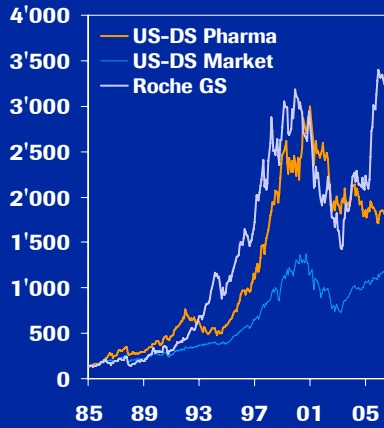
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## Pharma sector

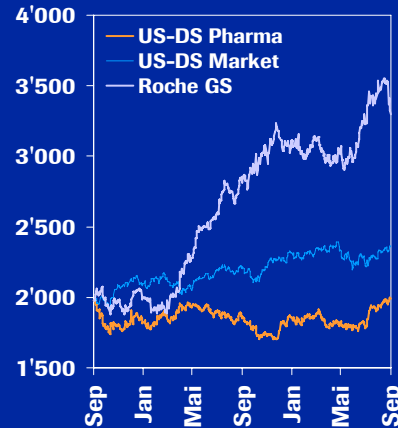
*From an 'outperformer' to an 'underperformer'*

**US Pharma Sector vs. Market:**  
Past 20 years ...



Source: Datastream

... and over the past two years



## Pharma is an attractive business

*Offering around two times GDP growth*

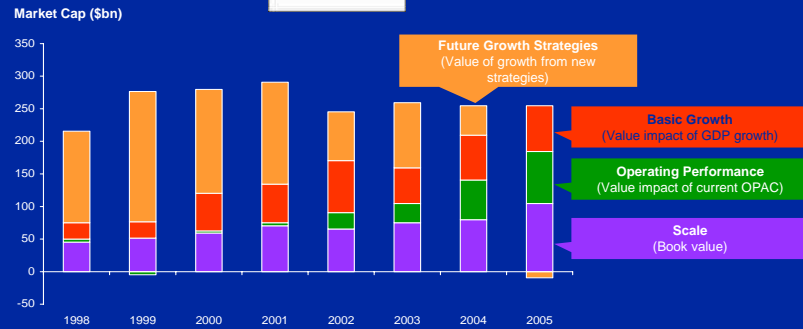


	Range of 10 year EPS growth			Range of 10 year EPS growth	
	Min	Max		Min	Max
Software & Services	7.0	12.0	Automobiles & Components	0.0	3.0
Household & Personal Products	7.0	11.0	Transportation	-2.0	4.0
<b>Pharma &amp; Biotechnology</b>	<b>8.0</b>	<b>11.0</b>	Materials	1.0	5.0
Commercial Services	6.0	10.0	Real Estate	2.0	5.0
Diversified Financials	6.0	10.0	Retailing	1.0	5.0
Health Care Equip. & Services	7.0	10.0	Capital Goods	2.0	6.0
Media	5.0	10.0	Hotels Restaurants & Leisure	3.0	6.0
Semiconductors	4.0	9.0	Utilities	3.0	6.0
Technology Hardware & Equip.	4.0	9.0	Energy	4.0	7.0
Consumer Durables	5.0	8.0	Telecommunication Services	3.0	7.0
Food & Staples Retailing	5.0	8.0	Insurance	3.0	8.0
Food Beverage & Tobacco	4.0	8.0			
Banks	3.0	8.0			

Source: Morgan Stanley estimates

# Time Aspect of Warranted Value

*How much are you given for the future?*



Over time the market cap of a company is likely to change (up or down) as the drivers of a company's valuation also change

Source: Accenture analysis

Performance up- date

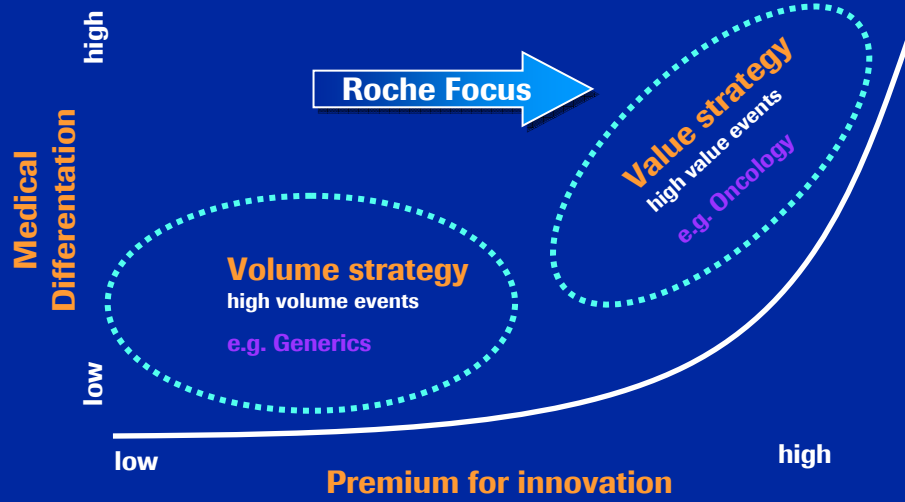
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**Focus on developing medically differentiated products and services offering high medical value**

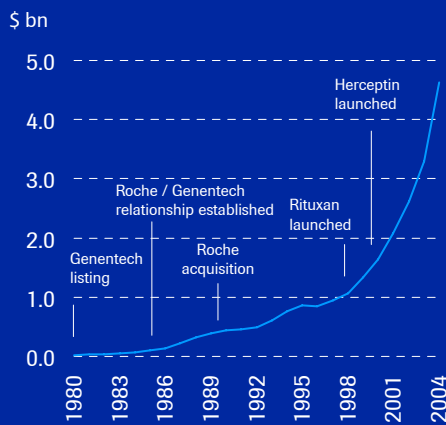


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**Roche: Long term view via emerging technologies**  
*Example- Monoclonal Antibodies*



**Genentech Revenue 1980-2004**



Sources: DataStream, Factiva, MA Analysis; [1] Monoclonal Antibodies

- Roche acquired Genentech in 1990 at the end of a 'Towards R&D Portfolio' stage
  - MAB<sup>1</sup> patent approvals had doubled in 1989
  - significant uncertainty remained over quality and quantity of Genentech's future pipeline
- 'Towards Commercialization' (1990-97)
  - build-up to the launch of Genentech's first humanized MAB, Rituxan
  - growing commercial certainty
- 'Full Commercialization' (since 1997)

Performance up- date

The current market environment- external factors

Defining priorities

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**Securing the long term value propositions**

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Roche's core strengths

## Main trends influencing the long-term value propositions



**Demographics**

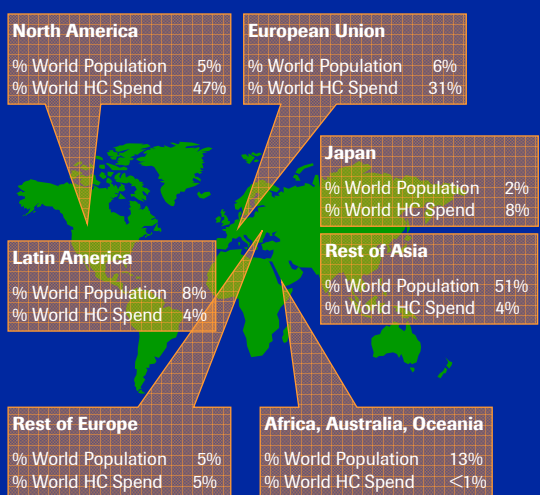
**Third Parties as Source of Innovation**

**Healthcare Funding**

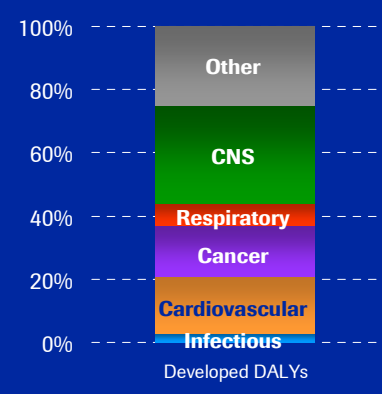
**Maximizing assets on hand**

## N. America, EU and Japan over 80% of HC spending

### Growing elderly healthcare market



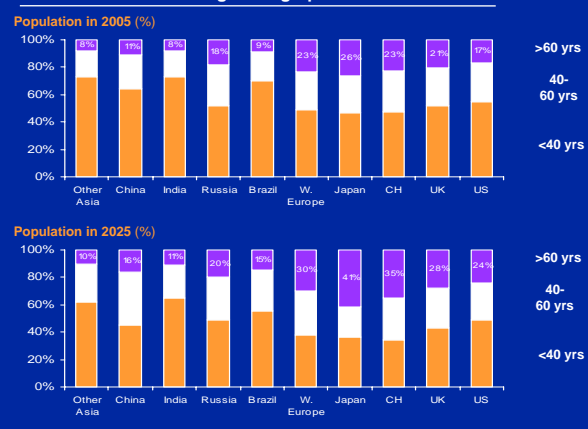
### Developed world medical need



Source: WHO - Priority Medicines for Europe & World Nov 2004; World Bank;  
 [1] DALY = Disability-adjusted life-years (healthy life lost due to illness/premature death)

## Ageing Population and Retirement- biggest transitions out of the workforce

### Shifting Demographics

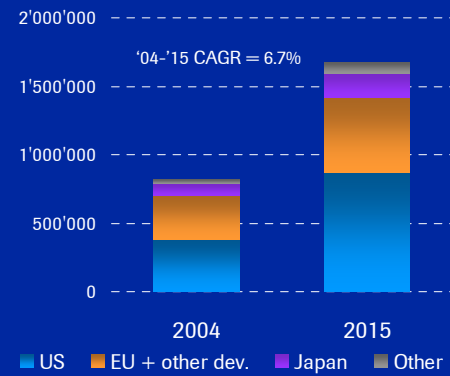


Source: Economist Intelligence Unit (2005-10)

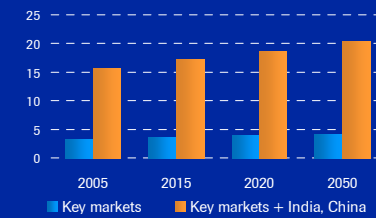
## Growing elderly healthcare market



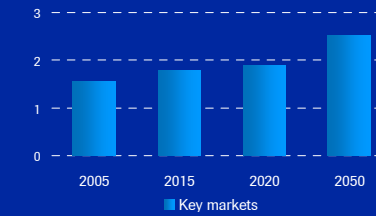
### HC spend by patients aged 65+ (US\$ bn)



### Rheumatoid arthritis (Prevalence in m)



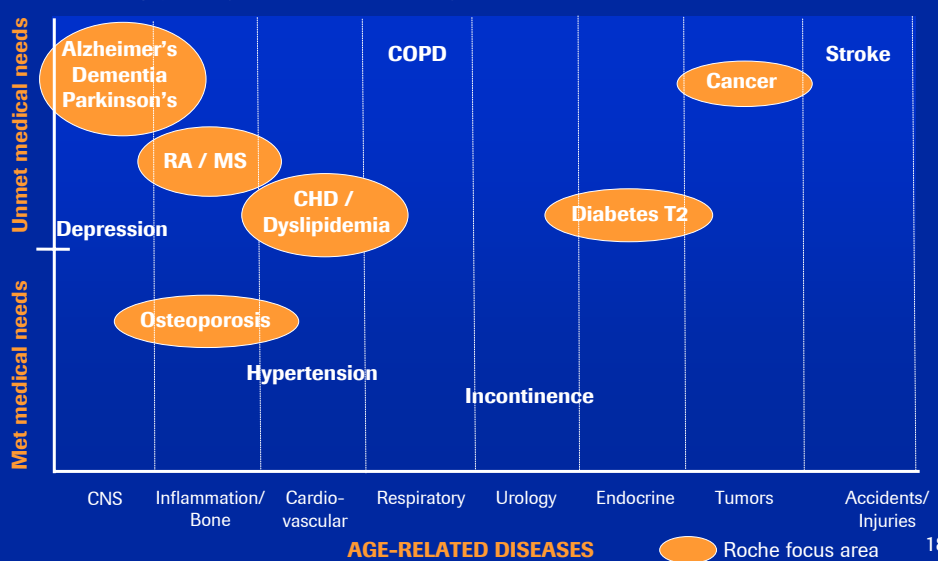
### Cancer (Incidence in m)



Sources: US Census Bureau, World Bank, Deutsche Bank Nov '04  
 Key markets: 5 major EU countries + US; Source: Decision Resources 2005, Timely Data Resources 2005, UN World Population Prospects 2004

## Age-related diseases

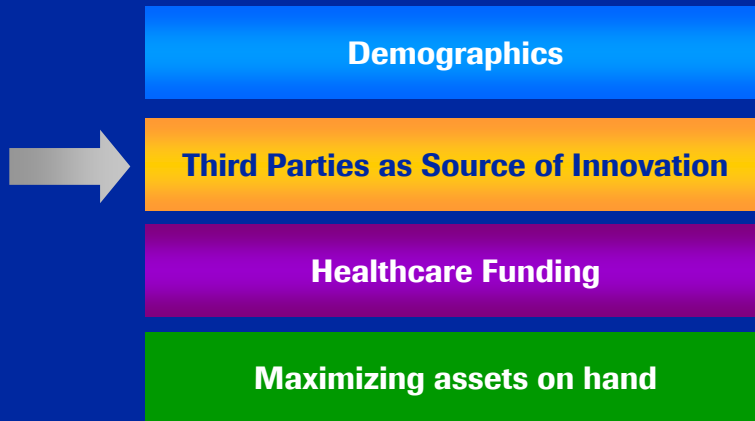
*Increasingly important development areas*



AGE-RELATED DISEASES

Roche focus area

## Main trends influencing the long-term value propositions



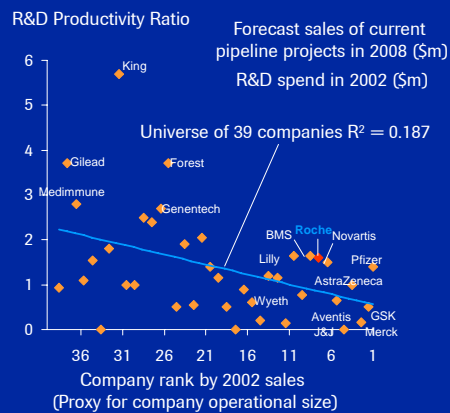
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## Accelerated consolidation

*Size is not all*



### Size vs. R&D productivity



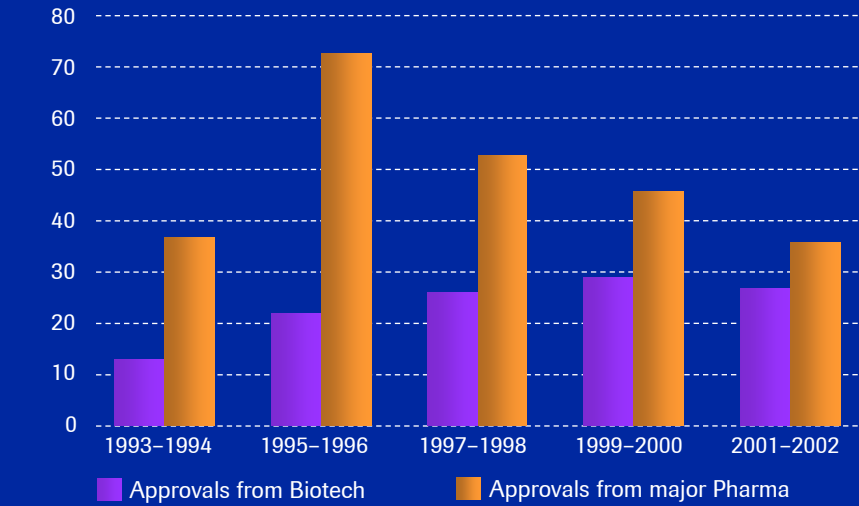
Source: Datamonitor, 2004 (Addressing Pharma's R&D Productivity Crisis)

- The relationship between company operational size and R&D productivity indicates that there are no significant economies of scale in pharmaceutical R&D
- This is despite the theoretical potential for greater efficiency or more successful product development

**There is no indication of a positive relationship between scale and R&D productivity**

## Biotech as new source of innovation

*A growing source of approved products*

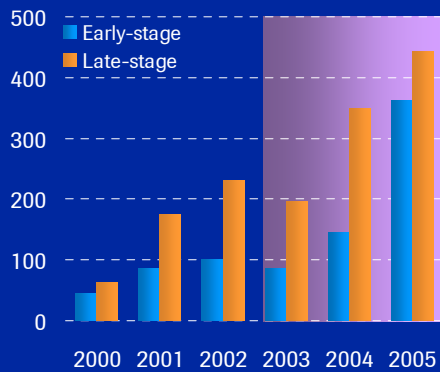


## Partnering

*Costs are rising for in-licensed products*

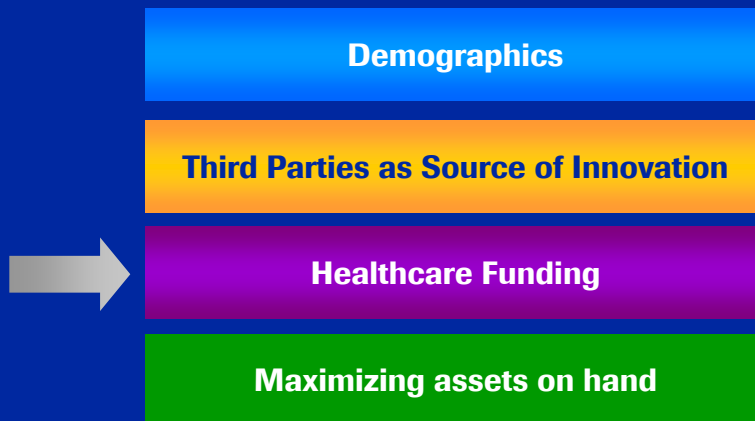


### Average cost of in-licensing (Rx), \$m



- Average cost of in-licensing deals rose 40% (CAGR) since 2000
- By 2010, 40% of Pharma peers' revenues expected to come from external sources of innovation

## Main trends influencing the long-term value propositions

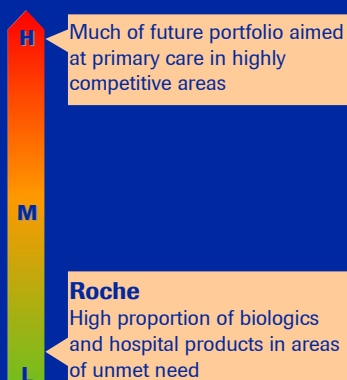


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## Higher premium for medically differentiated products *Low vulnerability to pricing and funding pressures*



### Vulnerability of portfolio to pricing pressure



- Focus on clearly differentiated products lowers vulnerability to increasing pricing environment
  - Price controls
  - Higher patient co-payments
- Higher proportion of biopharmaceuticals products lowers vulnerability to generic competition

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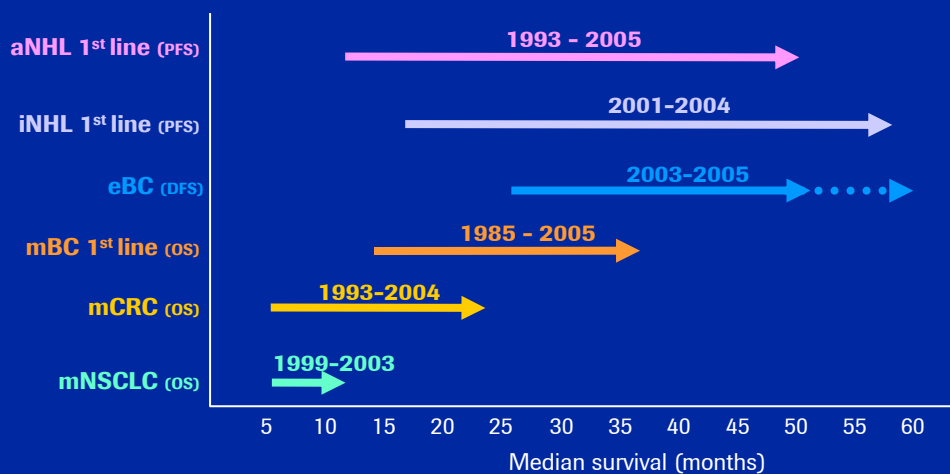
## The key goal of all our efforts in oncology: Moving from extending life to potentially saving life



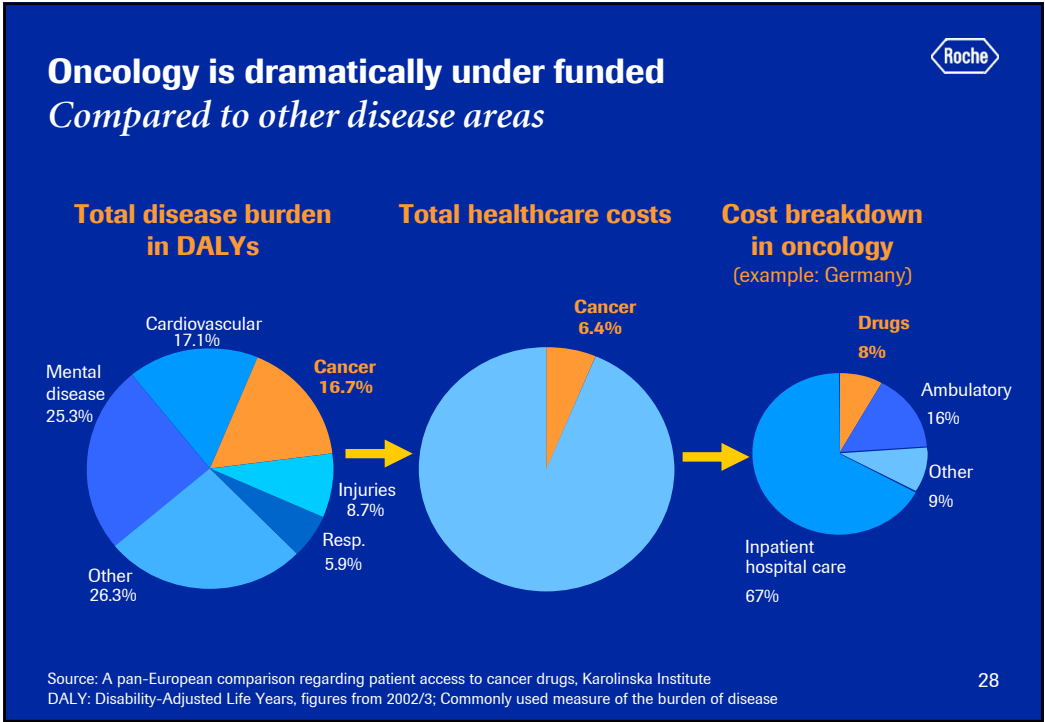
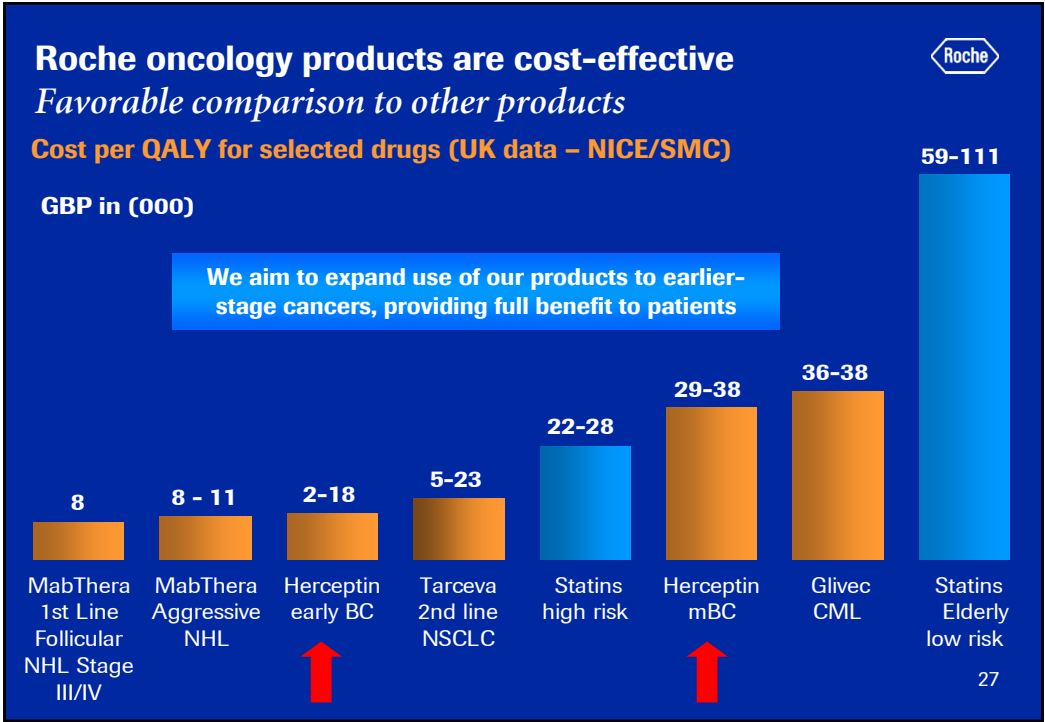
	ADJUVANT	MAINT.	1 <sup>st</sup> LINE	2 <sup>nd</sup> LINE
Filed or to file soon			Tarceva pancreatic Ca Avastin NSCLC Avastin mBC Xeloda gastric Ca Xeloda mCRC 1 <sup>st</sup> line combo Herceptin mBC combo hormonal Avastin mCRC 1 <sup>st</sup> line ext.	
Ongoing	Xeloda adjuvant BC Xeloda adjuvant CC combo Avastin adjuvant rectal Ca Avastin adjuvant CC Tarceva adjuvant NSCLC	Tarceva & Avastin NSCLC maintenance MabThera iNHL maintenance	Avastin RCC Avastin mBC 1 <sup>st</sup> line ext. Avastin pancreatic Ca Avastin NSCLC 1 <sup>st</sup> line ext. Avastin ovarian Ca MabThera 1 <sup>st</sup> line CLL Herceptin gastric Ca Tarceva NSCLC 1 <sup>st</sup> line Avastin & Herceptin mBC 1 <sup>st</sup> line ext.	MabThera relapsed CLL Avastin prostate Ca Tarceva & Avastin NSCLC 2 <sup>nd</sup> line Xeloda mCRC 2 <sup>nd</sup> line combo Avastin mBC 2 <sup>nd</sup> line
To start soon	Avastin adjuvant NSCLC Avastin adjuvant BC			

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## Cancer treatment outcomes Substantial treatment progress in recent years

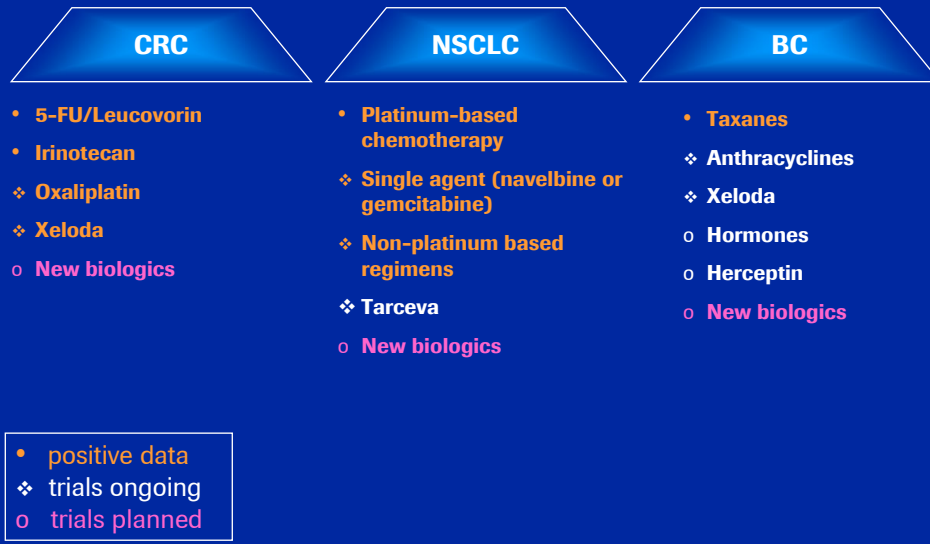


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## Avastin: Establish as combination partner to current standards



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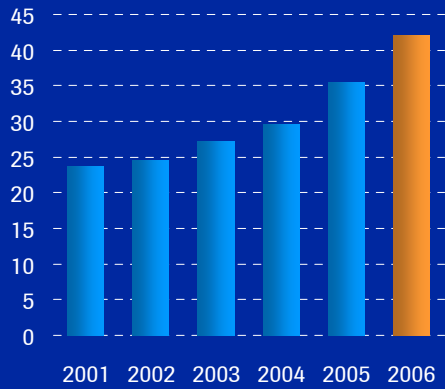
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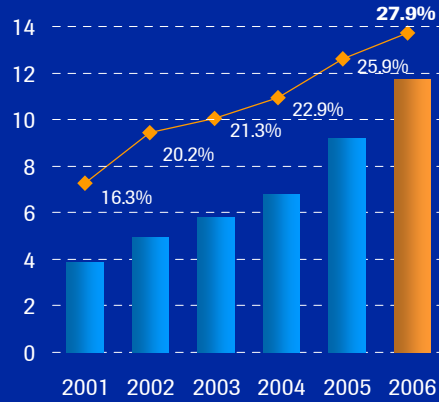
## Focus on differentiated products paying off

*Sales doubling, operating profits tripling*

Group sales<sup>1</sup> (CHF bn)



Group operating profit<sup>2</sup> (CHF bn)



<sup>1</sup> Pharmaceuticals and Diagnostics

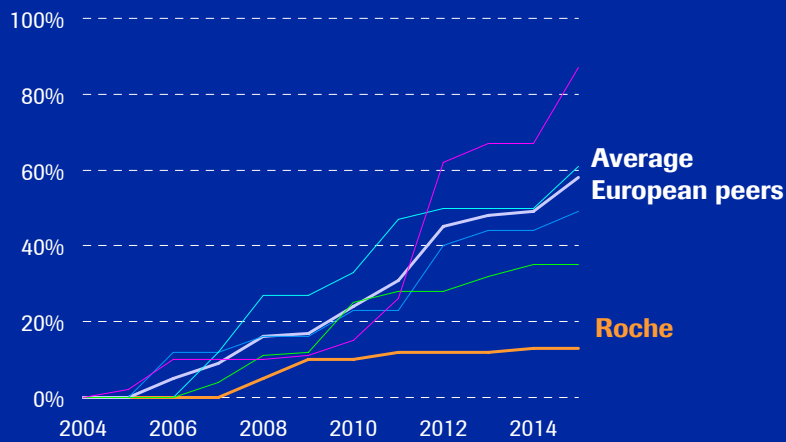
<sup>2</sup> before exceptional items



## Low generic risk

*Long-term sustainable business*

Sales erosion due to generisation (% of 2004 sales)



Source: citigroup

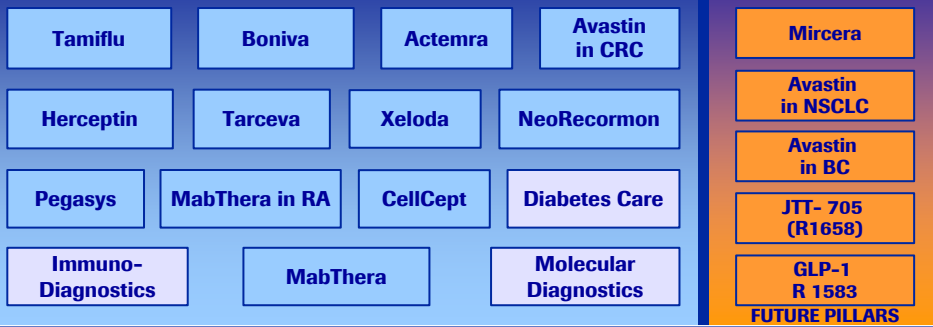
## Roche has a unique „investment case“



### Roche: Unique geographic risk diversification



### Roche: Unique “pillars of value” risk diversification



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BIG PHARMA



BIOTECH

... beyond 'big Pharma' and Biotech'

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*We Innovate Healthcare*